



**EXAMINATION OF CAMPBELLSVILLE MUNICIPAL
WATER & SEWER SYSTEM ACTIVITIES AND TRANSACTIONS
FROM JULY 1, 1998 THROUGH APRIL 30, 2001**

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

October 23, 2001

The Honorable Paul Osborne, Mayor
City of Campbellsville
100 Terri Street
Campbellsville, Kentucky 42718

Mr. Richard Jeter, Chairman
Campbellsville Municipal Water and Sewer System
110 South Columbia Avenue
Campbellsville, Kentucky 42718

RE: Examination of Campbellsville Municipal Water & Sewer System

Gentlemen:

We have performed an examination of selected Campbellsville Municipal Water & Sewer System (CMWSS) activities and transactions. This examination was initiated in response to information brought to our attention by citizens. KRS Chapter 96 authorizes cities of second through sixth classes to own and operate waterworks and sewer systems. This chapter also governs the financial and fiduciary requirements pertaining to such systems. CMWSS has a number of outstanding debt agreements that contain covenants governing systems operations. Our objective was to determine whether the financial relationship between CMWSS and the City of Campbellsville (City) complied with the aforementioned requirements.

Our procedures included interviewing CMWSS and City personnel, as well as examining CMWSS accounting records and detail transaction documentation. We identified over \$657,000 in financial support provided by CMWSS to the City during the examination period from July 1, 1998 through April 30, 2001, while the systems had a statutory reserve deficit of \$1,912,000. This violates KRS 96.430, which requires that income and revenues of the systems provide for adequate maintenance, operation, and depreciation reserves, and that the city adopt an authorizing ordinance. We also determined that CMWSS has provided water and sewer services free of charge to the City and other private, non-profit organizations in violation of its debt covenants.

Mayor Osborne
Chairman Jeter
October 23, 2001
Page 2

The findings noted during the performance of our examination are detailed in the attached report. We thank CMWSS and City personnel, as well as all parties involved, for the cooperation received during the course of our work.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ed Hatchett". The signature is fluid and cursive, with a horizontal line extending from the end of the name.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

EBHJr:kct

Findings and Recommendations

At the City's request, CMWSS provided over \$657,000 in financial support rather than building and maintaining adequate reserves.

During the period from July 1, 1998 through April 30, 2001, (Examination Period) the Campbellsville Municipal Water & Sewer System (CMWSS) provided \$657,292 to the City of Campbellsville (City) in the form of operating transfers to the City, labor for City projects unrelated to CMWSS operations, free water and sewer services, the payment of a City obligation unrelated to CMWSS operations, and the use of an office building.

Operating transfers during the Examination Period totaled \$463,177. Generally, operating transfers consisted of checks written by CMWSS to the City. One exception was an operating transfer in which the City sold a tract of CMWSS land for \$200,000 in May 2000. The City retained \$100,000 of the sales proceeds in a general government account.

CMWSS Financial Support to City

Operating Transfers	\$ 463,177
Labor	58,457
Free Services	78,953
Obligation Payment	24,398
Office Building	<u>32,307</u>
Total	<u>\$ 657,292</u>

According to CMWSS management, its personnel are used at times on City projects unrelated to CMWSS operations. Time spent on such projects is tracked and associated salaries and benefits expenses are charged to a separate general ledger account. Labor expenses for this work totaled \$58,457 during the Examination Period. Additionally, the City does not pay CMWSS for water and sewer services received. The value of these services during the Examination Period totaled \$78,953 based on CMWSS general ledger reports.

In February 2001, CMWSS paid \$24,398 on behalf of the City to purchase a perpetual easement strictly for an existing leach-aid line, even though CMWSS already owned a perpetual easement for its water lines on the same property. The leach-aid line used to control drainage belongs to the City landfill and, therefore, the associated easement should have been paid for out of the City's general fund.

In August 1999, CMWSS moved its administrative offices to a new building. CMWSS management had intended to sell the old building after it was vacated. Instead, the City took possession of the building and began using it for purposes unrelated to CMWSS operations. The book value of this building at the beginning of fiscal 2000 was \$32,307. Additionally, this building was never removed from the CMWSS general ledger and its depreciation continues to be recognized by CMWSS.

The highest court in Kentucky has found that cities must meet reserve requirements before withdrawing funds from a municipal utility.

In Electric Plant Board of City of Mayfield v. City of Mayfield, 299 Ky. 375, 185 S.W.2d 411, 413 (1945), Kentucky's highest court found that a city "has no right to withdraw any sum of money from the revenues of the water plant until first funds sufficient in amount to cover operating, maintenance, and sinking fund requirements shall have been set aside." Also, KRS 96.430 states:

[a]t or before the issuance of bonds the city legislative body shall, by ordinance, set aside and pledge the income and revenue of the waterworks into a separate and special fund to be used and applied in payment of the cost thereof and in the maintenance, operation and depreciation thereof. The ordinance shall definitely fix and determine the amount of revenue necessary to be set apart and applied to the payment of the principal and interest of the bonds, and the proportion of the balance of the income and revenues to be set aside as a proper and adequate depreciation account, and the remaining proportion of such balance shall be set aside for the reasonable and proper operation and maintenance of the waterworks.

The City did not enact an ordinance governing the application of CMWSS revenues as required by KRS 96.430.

Based on discussions with the City Attorney, we determined that the City does not have an ordinance that satisfies KRS 96.430. In the absence of an ordinance, the best sources for determining the amount to be set aside for debt service and depreciation are the debt agreements. CMWSS has outstanding debt through both the Kentucky Infrastructure Authority (KIA) and the Kentucky League of Cities (KLC). These debt agreements require \$912,579 to be reserved for debt service and \$400,000 to be reserved for depreciation as of April 30, 2001.

KRS 96.440 describes a surplus of operating and maintenance funds as "the cost of maintaining and operating the waterworks during the remainder of the calendar, operating or fiscal year and during the succeeding like year." Based on fiscal year to date 2001 figures as of April 30, 2001, operating and maintenance expenses from May 1, 2001 through June 30, 2002, would be \$3,959,423.

Statutory Reserve Requirements
As of April 30, 2001

Debt service	\$ 912,579
Depreciation	400,000
Oper. & Maint.	<u>3,959,423</u>
Total	<u>\$ 5,272,002</u>

KIA debt restructuring benefited the City's general fund rather than CMWSS customers.

CMWSS Financial Support to City (excluding non-cash items)

Operating Transfers	\$ 463,177
Obligation Payment	<u>24,398</u>
Total	<u>\$ 487,575</u>

These items combine to create a statutory reserve requirement of \$5,272,002 (see Exhibit E) that must be met, according to City of Mayfield, before the City may withdraw funds from CMWSS. Examination of CMWSS assets revealed that only \$3,360,002 was available to meet this requirement as of April 30, 2001 (see Exhibit A), leaving a reserve shortfall of \$1,912,000. Similar shortfalls of \$661,211 and \$445,832 existed as of the end of fiscal years 2000 and 1999 respectively. Using CMWSS revenues to supplement general fund revenues without first providing for reserve requirements not only violates KRS 96.430 and City of Mayfield, but also puts the ability of CMWSS to properly operate its systems at risk.

On April 29, 1998, the City requested relief from debt repayment terms due to the adverse financial impact on CMWSS of the Union Underwear plant closure (see Exhibit B). The City later represented in a proposal to KIA that debt-restructuring benefits would be used to lower rates and reduce water bills (see Exhibit C ** on page 13). Yet the City continued to withdraw funds from CMWSS after KIA restructured its debt terms. The cash flow benefit to CMWSS from restructuring during the Examination Period totaled \$484,653. Financial support from CMWSS to the City, excluding non-cash items, during the same period totaled \$487,575. This indicates that in effect, all the restructuring benefits actually inured to the City's general fund, not CMWSS customers (see Exhibit D).

Both KRS 96.200 and the City of Mayfield illustrate that the Legislature intended for cities to possess a right to use funds from the operation of a water and sewer system for general fund purposes. It is clear, however, from KRS 96.200 that the Legislature also intended to limit this right to funds of an excess nature:

the legislative body of any city of the third through sixth classes inclusive may, by ordinance, provide in what manner and for what purpose any profits, earnings or surplus funds arising from the operation of any public utility owned or operated by the city may be used and expended. The ordinance may be amended or repealed from time to time. Until such an ordinance is enacted any surplus earnings shall be paid into the city treasury, to be expended for the general purposes of government in the city.

Given that the City was requesting debt relief for CMWSS on the basis of an earnings crisis, it does not appear reasonable that CMWSS had excess funds available to withdraw.

Over \$216,000 in funds earmarked by CMWSS for capital projects was needed to meet KLC debt reserve requirements.

As of April 30, 2001, CMWSS management had \$900,000 earmarked for use in capital projects to upgrade the sewer plant, Cardinal Park facilities, and water tanks. Had all these projects been performed and the earmarked funds been spent, CMWSS would be out of compliance with KLC debt reserve requirements. These requirements dictate amounts that must be in reserve accounts for purposes such as debt service, debt reserve, operating and maintenance expenses, and depreciation expenses. KLC debt agreements also dictate that even after all these reserve requirements are fully funded, a surplus account must achieve a balance equal to five percent of annual water and sewer system revenues before surplus funds can be used for general fund purposes.

CMWSS was able to meet KLC debt requirements of \$2,356,760 (see Exhibit E) as of April 30, 2001, but not without re-allocating \$216,321 in earmarked assets. Had operating transfers of \$463,177 from CMWSS to the City not occurred, the re-allocation may not have been necessary.

On June 6, 2001, the Mayor sent a memo to CMWSS management with instructions to discontinue the \$15,000 monthly operating transfers to the City that had begun in April 2000. This action by the Mayor is an appropriate first step in ensuring the long-term stability of CMWSS.

Recommendations

We recommend that the City

- Maintain the moratorium on operating transfers from CMWSS to the City until such time as statutory and debt agreement reserve requirements have been fully funded; and
- Enact an ordinance appropriately governing the application of CMWSS revenues consistent with state statutes and debt agreements.

We also recommend that CMWSS management

- Closely monitor the status of reserves to ensure continued compliance with debt reserve requirements;
- Reorganize restricted asset accounts to align them with specific debt reserve requirements to facilitate the monitoring process;
- Deny any future funding requests from the City that would negatively impact reserve funding status; and
- Write off the book value its old office building as an operating transfer to the City.

CMWSS violated its debt agreements by providing over \$92,000 in services free of charge.

CMWSS debt agreements through KIA and KLC both contain covenants that CMWSS will charge for its services. These covenants are included to protect bondholders' interests in water and sewer system revenues, which are pledged to meet debt payments. We determined that CMWSS has a long-standing practice of providing services free of charge to the City and a few private, non-profit corporations. According to CMWSS management, meters were not read for these accounts prior to 1999, when a decision was made to track the value of these services. The meters are now read and charges are then recorded and written off.

Services Provided Free of Charge during Examination Period

City accounts	\$ 78,953
Campbellsville College	6,000
Historical Society	3,900
Campbellsville –Taylor	
County Rescue Squad	2,431 ¹
Taylor County	
Sportsman Club	1,231
Taylor County Fiscal	
Court	131
Total	<u>\$ 92,646</u>

The manner in which the value of these services was recorded and written off was not consistent in the past. While we cannot be sure that all such services were identified, we did note at least \$92,646 in water and sewer service charges, meter, and tap fees that were systematically written off during the Examination Period. This amount does not include any write-offs granted to individuals due to bad debts or leaks. The City Attorney did not identify any contractual agreements that required the City to provide these services free of charge.

¹ Amount represents services before the Campbellsville-Taylor County Rescue Squad became a department of the City.

Representatives for KIA and KLC have indicated that the long-standing practice of providing services to certain entities free of charge violates outstanding debt agreements.

Article IV Section 4.1 of the KIA debt agreement dated October 15, 1988, and Article V Section 5.1 of the KIA debt agreement dated April 1, 1993, both require the imposition of “Service Charges, or surcharges upon all persons, firms and entities to whom or which services are provided by the System.” KIA personnel have indicated that providing services free of charge, even to the City, violates this covenant.

Exhibit G, Section 3A of the Fixed Rate Lease Purchase Agreement between CMWSS and KLC dated July 12, 1994, states that “[t]he Lessee will at all times own and operate the system as a combined and consolidated project on a revenue-producing basis, and will permit no services to be rendered free of charge or without full compensation.” An identical term is also contained in another debt agreement with KLC. KLC bond counsel indicated that while providing services to the City free of charge may not constitute a violation, the services provided to the private, non-profit organizations do violate this covenant. It should be noted that this violation does not constitute a default until declared a default by KLC.

Recommendations

We recommend that CMWSS implement one of the following:

- Begin charging for all services provided to ensure compliance with debt agreements; or
- Seek a waiver from KIA and KLC that allows CMWSS to continue providing its services free of charge to those entities to which KIA and KLC consent.

EXHIBITS

EXHIBIT A

CMWSS Assets Available to Meet Reserve Requirements
(As of April 30, 2001)

Citizens Bank	13,037.16	
Community Trust - 1994 Refinance	410,364.48	
Taylor County Bank - VIP MM	10,497.73	
Community Trust - '89 KIA Dam	402,519.09	
Taylor County Bank	168,849.67	
Community Trust - '85 KIA Water	172,132.73	
Citizens Bank – MM	51,249.61	
Chase Bank	1,358.00	
Farmer's National Bank CDs	800,000.00	
96 Water Plant Expansion	54,262.28	
1988 KIA Reserve	19,293.96 ²	
Taylor County Bank CD & Repo	300,000.00 ³	
Depreciation Fund - Chase Bank	292,619.00	
Debt Svc Reserve Account - Chase Bank	<u>663,818.00</u>	
Total Assets Available		<u>3,360,001.71</u>

² This balance represents a prepaid expense created at bond issuance that satisfies KIA debt reserve requirements, not cash that can be used to meet other reserve requirements. Therefore the prepaid balance is only included to the extent it satisfies the KIA debt reserve requirements.

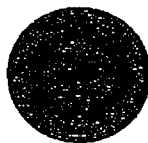
³ Per CMWSS management it was necessary to liquidate this CD at maturity on May 24, 2001, to make a required payment on the 1994 KLC Revenue Bonds.

EXHIBIT B

08/01/2001 09:27 FAX 502 564 7943

GOV. Office: KIA

ROBERT L. MILLER
MAYOR
502-465-7011



City of Campbellsville
MUNICIPAL BUILDING
CAMPBELLVILLE, KY 42718
FAX 502-789-0251

General
Correspondence
B94-01
C89-56
C88-02

RECEIVED

MAY 4 9 38 AM '98

KENTUCKY
INFRASTRUCTURE
AUTHORITY

SUE SMITH
CITY CLERK
502-465-7011

April 29, 1998

Ms. Marilyn Eaton-Thomas
Kentucky Infrastructure Authority
702 Capitol Avenue
Suite 261, Capitol Annex
Frankfort, Kentucky 40601-3453

Dear Marilyn:

Bob

Thank you for meeting with us today. Campbellsville is facing some difficult decisions with the closure of the Fruit of the Loom facility. As you saw today with the information presented, we will be looking at additional increases to the customers just to stay where we are. An increase of seventeen percent went into effect in August of 1997.

We currently have three loans with the Kentucky Infrastructure Authority. We are requesting that these loans be converted to grants. We would be glad to provide any information to you that will help you in making this decision. Thank you for your assistance.

Sincerely,

Robert L. Miller

Robert L. Miller
Mayor

cc. Bob Chandler, DLG

EXHIBIT C

JUL-02-98 02:58P C-VILLE Water Co.

502 465 3581

P.01

Campbellsville MW & SS
P.O. Box 1098
Campbellsville, Ky. 42719-1098
502 789-3133
502 465-3581 Fax

facsimile transmittal

To: MARYLIN EATON THOMAS Fax: 502 564 7461

From: EIBERT NASH Date: 7.2.98

Re: _____ Pages: 4

CC: _____

☐ Urgent ☒ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

Notes: MARYLIN- Debbie Gray ask me to
fax a copy of the proposal that was
faxed to the Governor's office after
our meeting on 5-15-98. If any question
please call me 502 789 3133

.....

Jul-02-98 02:58P C-ville Water Co.

502 465 3581

P.02

MPY 15 '98 03:24PM KENVIRONS, INC.

P.2/4

CAMPBELLSVILLE DAM

The existing City Reservoir and Dam, along with the Water Treatment Plant, were constructed in 1951. At that time, the dam structure was utilized to realign highways KY-55 and US-68, now listed as KY-289. The realignment eliminated two extremely sharp curves and a bridge over Pitman Creek. The reservoir is primarily used for recreation and as a backup water supply.

In 1989, the City undertook a project to refurbish the dam and its accompanying outlet works. The structure is a part of the state roadway system. The first part of the project included stabilizing the downstream face of the dam by adding fill material, and the installation of a subsurface drainage system. The second and third parts of the project realigned the outlet works and included such items as the installation of a new box culvert for KY-89, lowering the discharge stream bed 12 feet, widening the discharge stream approximately 20 feet, and the installation of concrete and gabion retaining walls. Since the completion of the 1989 project, no flooding has occurred at the City's Water Treatment Plant. The cost for this project was approximately \$2,700,000.

In late 1997, a section of the gabion retaining wall collapsed. The failure is located adjacent to the box culvert supporting KY-89 which is the tallest and steepest area of the dam. A preliminary proposal to remedy the failure consists of removing the failed material and installing a concrete retaining wall. The proposed wall would be taller than the previous gabion wall so that the earthwork would be at a milder slope. The cost for the remedial work is estimated to be \$200,000.

If the Kentucky Department of Transportation could help with the repair and payment of the existing bond, then the City would greatly benefit.

Jul-02-98 02:58P C-vill- Water Co.

502 / 55 3581

P.03

MAY 15 '98 03:25PM KENVIRONS, INC.

P.3/4

CITY OF CAMPBELLVILLE, KENTUCKY

The discontinuance of Union Underwear's bleaching and dyeing operations will result in a loss of about \$1,100,000.00 of revenue for the Campbellville Water and Sewer Department per year. Union used about 1,500,000 gallons of water and wastewater.

Recently (1997), the City started an expansion of the water treatment plant from 5.6 MGD to 9.0 MGD. This work will be completed in the Fall of 1998. To fund the project, rates were raised seventeen percent (17%) across the board to all city and county customers.

Bonded indebtedness on the two systems is as follows:

	Remaining Principal	Annual Payment	1.8% Interest Rate	**0% Interest Rate
1. KIA Loan of about \$1,000,000.00 at average of about 5% - Fund C Loan #C8802	\$876,000.00	\$67,200.00	\$59,500.00	\$24,000.00
2. KIA Loan (refinanced) on Dam. Loan of about \$2,700,000.00 at about 5% - Fund C Loan #C8956	\$2,127,500.00	\$286,000.00	*\$286,000.00	*\$286,000.00
3. Kentucky League of Cities 1994 loan of \$5,000,000.00 at about 6% (This loan is about 70% water and 30% wastewater).	\$4,255,000.00	\$453,000.00	\$297,800.00	\$200,000.00
4. KIA Loan 1997 (Current water project) of \$1,905,000.00 at 1.6% Interest - Fund B Loan #B9401	\$1,905,000.00	\$127,450.00	*\$127,450.00	*\$127,450.00
5. Kentucky League of Cities 1997 loan of \$1,040,000.00 at about 6%	\$1,040,000.00	\$89,750.00	\$62,000.00	\$46,000.00
Total Yearly Payments	\$10,203,500.00	\$1,023,400.00	\$832,750.00	\$683,450.00

*No Change in Interest Rate

**Principal Only for Five (5) Years. Savings to be used to reduce water bills.

Also, in order to meet EPA & DOW requirements the sewer bill would have to be raised to \$2.75/1000 from \$0.84/1000 (City was getting ready to raise to \$1.37/1000).

Our concern is raising rates to those who have lost their jobs.

JUL-02-98 02:55P C-VIII WATER CO.

502 / 3 3581

P.04

MAY 15 '98 03:25PM KENVIRONS, INC.

P.4/4

Without relief a water and sewer bill for a 4000 gallon/month user would be:

	<u>EXISTING CITY</u>	<u>PROPOSED</u>	<u>EXISTING COUNTY</u>
Water	14.06	14.06	32.11
Sewer	12.01	18.25	

*to pay existing debt?
(w/ Fund B)*

City has, with present rate structure, been able to put money aside for depreciation and has accumulated about \$2,400,000.00. This money has been tentatively obligated for the following:

750,000 Gallon Elevated Tank Near Taylor County Hospital	\$1,050,000.00	<i>Is this still needed?</i>
Accelerated I & I work	\$ 400,000.00	<i>Can any of these wait</i>
Gabian Wall Repairs at City Tank	\$ 200,000.00	<i>Get a grant from Sonchor</i>
Temporary Operating Deficit	\$50,000.00 a month ?	
Existing Tank Repairs	<u>\$ 100,000.00</u>	
TOTAL	\$2,150,000.00	

If City could restructure loans 1, 3 and 5 and obtain relief for a period of time (5 years) from the interest charges, water rates could be lowered about 17%. Sewer rates would still increase to meet EPA requirements but the overall affect on customers would not be as severe.

EXHIBIT D

KIA Loan Restructuring Benefit Analysis

Fiscal 1999 Restructuring Cash Flow Benefit	159,824
Fiscal 1999 Cash transfers to general fund	168,112
% of Restructuring Cash Flow Benefit transferring to general fund	100%
Fiscal 2000 Restructuring Cash Flow Benefit	216,817
Fiscal 2000 Cash transfers to general fund	145,065
% of Restructuring Cash Flow Benefit transferring to general fund	67%
Fiscal 2001 (YTD as of 4/30/01) Restructuring Cash Flow Benefit	108,012
Fiscal 2001 (YTD as of 4/30/01) Cash transfers to general fund and obligation payment	174,398
% of Restructuring Cash Flow Benefit transferring to general fund	100%
Overall Restructuring Cash Flow Benefit (7/1/98 - 4/30/01)	484,653
Overall Cash transfers to general fund and obligation payment (7/1/98 - 4/30/01)	487,575
Overall % of Restructuring Cash Flow Benefit transferring to general fund	100%

EXHIBIT E

CMWSS Reserve Requirements

Reserve Requirements as of April 30, 2001 per Kentucky Revised Statutes		Reserve Requirements as of April 30, 2001 per KLC Debt Agreements	
<hr/>		<hr/>	
Debt Service ¹	\$ 912,579	Debt Service	\$ 893,285
Depreciation ¹	400,000	Depreciation	400,000
Oper. & Maint.	<u>3,959,423</u>	Oper. & Maint.	848,448
		Surplus Contingency	<u>215,027</u>
Total	<u>\$ 5,272,002</u>	Total	<u>\$ 2,356,760</u>

¹ KRS 96.430 dictates that this requirement be quantified by ordinance. Since the City does not have such an ordinance, this component was quantified by the CMWSS debt agreements with both KIA and KLC.

CITY OF CAMPBELLSVILLE RESPONSE

BERTRAM & COX

ATTORNEYS AT LAW

POST OFFICE BOX 1155
211 EAST BROADWAY
CAMPBELLVILLE, KENTUCKY 42719-1155
TELEPHONE (270) 465-4193 OR 465-8875
FAX (270) 465-5208
E-MAIL: mail@bertramandcox.com

PHIL ALLAN BERTRAM, P.S.C.
CRAIG COX, P.S.C.
JOHN D. BERTRAM, P.S.C.
AMY S. ANDERSON, P.S.C.

October 12, 2001

Mr. Brian Lykins
Division of Examination and Information Technology
Auditor of Public Accounts Office
2501 Georgetown Road, Suite 2
Frankfort, KY 40601-5539

RE: City of Campbellsville and
Campbellsville Municipal Water and Sewer System

Dear Mr. Lykins:

As Campbellsville City Attorney and counsel for the Municipal Water and Sewer System, I received and reviewed your letter of October 10, 2001 along with the draft of your examination of the Water System. In accordance with the privilege outlined in the cover letter, this letter shall be considered the response by the City and Water Company to be included with your report.

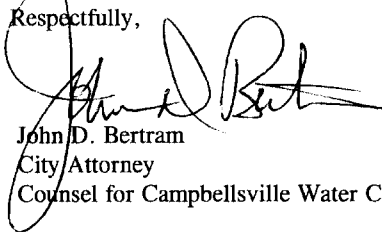
With respect to the recommendations for the City, please be advised that the City will continue to maintain the moratorium on operating transfers from the Water Company to the City until such time as statutory and debt agreement service requirements have been fully funded. In addition, we anticipate enactment of an ordinance which appropriately governs the application of Water Company revenues consistent with state statutes and debt agreements.

With respect to the Campbellsville Municipal Water and Sewer System, the company will continue monitoring the status of reserves to insure continued compliance with debt reserve requirements. Furthermore, to the extent possible, the company will reorganize restricted asset accounts to align them with specific debt reserve requirements in order to facilitate the monitoring process. There will be no funding transfers to the City from the Water Company which would negatively impact reserve funding status and we will further confirm that the Water Company has written off the book value of its old office building as an operating transfer to the City. Finally, the Water Company will charge for all services to ensure compliance with debt agreements, or in the alternative will seek a waiver from KIA and KLC which permits the Water Company to continue providing such services free of charge to those entities to which KIA and KLC consent.

On behalf of the City and the Water Company, I wish to express our sincere appreciation for your courteous cooperation during the examination. I hope that you will also extend our appreciation to Mr. Phil Bezeherthy for his assistance and cooperation. Certainly, the City and Water Company are both pleased to have received what is considered to be a very favorable examination.

I trust that you will contact me if you have any questions or comments regarding this matter.

Respectfully,

A handwritten signature in black ink, appearing to read "John D. Bertram". The signature is fluid and cursive, with a large initial "J" and a distinct "B".

John D. Bertram
City Attorney
Counsel for Campbellsville Water Company

JDB/lr

cc: Paul E. Osborne, Mayor
Elbert Nash, General Manager of Campbellsville Water & Sewer System

